FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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CLASSIFICATION TREATMENT FOR HIGH LOAN-TO-VALUE (LTV) RESIDENTIAL REFINANCE LOANS

Summary: Loans to refinance performing real estate mortgages to a lower interest rate, despite a higher LTV, generally should not be adversely classified provided the credit complies with sound underwriting guidelines. The FDIC is affirming that the standards in the *Uniform Retail Credit Classification and Account Management Policy* should be followed relative to the classification treatment for high LTV residential refinance loans. The guidance establishes that retail loan classifications should be based on the borrower's payment performance, not the value of the collateral, which can rise and fall as market conditions change.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Loan Officer
Chief Compliance Officer

Related Topics:
Uniform Retail Credit Classification and Account Management Policy

Part 365, Real Estate Lending Standards

Interagency Guidelines on High Loan-to-Value (LTV) Residential Real Estate Lending

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Highlights:

- The *Uniform Retail Credit Classification and Account Management Policy* recognizes that a borrower's payment performance is the principal factor in determining the classification treatment of a residential real estate loan.
- Historically, creditworthy borrowers typically refinance mortgages to prevailing market rates when interest rates fall.
- Many performing residential borrowers have been unable to take advantage of the recent decline in interest rates due to insufficient equity in their properties, although the borrowers meet all other underwriting criteria.
- Reducing the interest rate for performing borrowers generally strengthens the borrowers' repayment ability.
- In the case of performing borrowers, examiners generally should not adversely classify residential refinance loans that lower the rate to a market interest rate and otherwise follow sound underwriting guidelines, except for a high LTV ratio.